

**REPORT OF THE AUDIT OF THE
WOLFE COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WOLFE COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Wolfe County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$96 from the prior year, resulting in no excess fees as of December 31, 2004. Revenues decreased by \$27,041 from the prior year and expenditures decreased by \$26,945.

Report Comments:

- Discrepancies Were Noted In Payroll
- The County Clerk Should Use Prenumbered Receipts For All Transactions
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were not fully insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable S. Kenneth Lindon, Wolfe County Clerk
Members of the Wolfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Wolfe County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable S. Kenneth Lindon, Wolfe County Clerk
Members of the Wolfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Discrepancies Were Noted In Payroll
- The County Clerk Should Use Prenumbered Receipts For All Transactions
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Wolfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 8, 2005

WOLFE COUNTY
S. KENNETH LINDON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$	1,189	
Fiscal Court			48,844
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	196,628	
Usage Tax		618,398	
Tangible Personal Property Tax		323,792	
Other-			
Fish and Game Licenses		3,735	
Marriage Licenses		4,175	
Occupational Licenses		125	
Beer and Liquor Licenses		1,650	
Deed Transfer Tax		7,252	
Delinquent Tax		27,303	1,183,058
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	6,037	
Real Estate Mortgages		7,460	
Chattel Mortgages and Financing Statements		29,178	
Powers of Attorney		518	
All Other Recordings		7,091	
Charges for Other Services-			
Copywork		5,150	55,434
Other:			
Car Liens	\$	2,996	
Elections		4,185	
Miscellaneous		3,287	10,468
Interest Earned			402
Total Revenues	\$		1,299,395

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
S. KENNETH LINDON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 152,172

Usage Tax 598,586

Tangible Personal Property Tax 139,231

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,562

Delinquent Tax 3,332

Legal Process Tax 6,101

Candidate Filing Fees 1,725 \$ 904,709

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 22,949

Delinquent Tax 2,260

Deed Transfer Tax 6,798

Occupational Licenses 108

Beer and Liquor Licenses 1,568 33,683

Payments to Other Districts:

Tangible Personal Property Tax \$ 145,995

Delinquent Tax 13,247 159,242

Payments to Sheriff 578

Payments to County Attorney 3,935

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 71,090

Employee Benefits-

Employer's Share Social Security 10,149

Employer's Paid Health Insurance 13,730

Contracted Services-

Computer Services 5,994

Miscellaneous Services 1,185

Printing and Binding 1,350

Materials and Supplies-

Office Supplies 6,408

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
S. KENNETH LINDON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	4,425	
Dues		1,090	
Postage		4,298	
Refunds		224	
Utilities		1,653	
Elections		1,100	
Miscellaneous		1,697	
Capital Outlay-			
Office Equipment		<u>5,849</u>	<u>\$ 130,242</u>
Total Expenditures			\$ 1,232,389
Net Revenues			\$ 67,006
Less: Statutory Maximum			<u>60,313</u>
Excess Fees			\$ 6,693
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,093</u>	<u>6,693</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 12, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,565 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 12, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>1,565</u>
Total	<u><u>\$ 101,565</u></u>

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$4,500. No funds were expended during the year. The unexpended grant balance was \$4,500 as of December 31, 2004.

Note 5. Lease

The office of the County Clerk committed to a lease agreement with Pitney Bowes for a copier in November 1999. The agreement requires a monthly payment of \$60 for 36 months to be completed on November 2002. The Clerk has continued leasing the copier without signing a new lease agreement. He continues to pay the \$60 monthly payment. The total balance of the agreement was \$0 as of December 31, 2004.

WOLFE COUNTY
S. KENNETH LINDON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

Discrepancies Were Noted In Payroll

During our review of payroll, we noted discrepancies between the amount of hours reported on time records to the amount of hours paid to employees. Employees prepared a timesheet for regular business hours and a separate timesheet for hours worked out of the normal business hours (overtime). For hours worked in excess of 40, employees noted time and one-half by adding additional time to actual hours worked. Of the 26 pay periods tested, we noted the payroll clerk prepared payroll based on the amount of time listed on timesheets computed at straight time. We could not determine the actual hours worked as the time sheets reflected more time than actual work hours. Furthermore, the auditor noted immaterial differences between the amounts paid and the amounts calculated for payroll for both full time and part time employees. According to KRS 337.320 "every employer shall keep a record of...the hours worked each day and each week by each employee..." We recommend the County Clerk require employees to reflect actual hours worked on each time sheet. We further recommend the County Clerk contact the Kentucky Department of Labor to request a review of this payroll for compliance with Kentucky wage and hour laws and regulations.

County Clerk's Response:

We are correcting this process now.

The County Clerk Should Use Prenumbered Receipts For All Transactions

During our review of receipts, we found receipts were not being issued for delinquent tax or chattels payments. KRS 64.840 states "...all county officials shall, upon receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specification of the state local finance officer..." We recommend the Clerk used prenumbered receipts for all transactions.

County Clerk's Response:

OK.

WOLFE COUNTY
S. KENNETH LINDON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The County Clerk should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any differences should be reconciled. The County Clerk could document this by initialing the quarterly financial report.
- The County Clerk should compare periodically the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The County Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.
- The County Clerk should monitor and supervise the assigned responsibilities of his staff.

County Clerk's Response:

OK

PRIOR YEAR:

The County Clerk's Office had an inadequate segregation of duties in the prior year. This was not corrected and is discussed above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable S. Kenneth Lindon, Wolfe County Clerk
Members of the Wolfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Wolfe County Clerk for the year ended December 31, 2004, and have issued our report thereon dated September 8, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wolfe County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wolfe County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Discrepancies Were Noted In Payroll
- The County Clerk Should Use Prenumbered Receipts For All Transactions

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 8, 2005

